

Message Text

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E.O. 11652: GDS
TAGS: MILN, EAIR, CA
SUBJ: LOCKHEED LRPA SITUATION: CURRENT THINKING IN DSS

REF: STATE 052155; OTTAWA USDAO 164 MAR 76

1. DOD'S MARCH 3 NOT FOR ATTRIBUTION PAPER HAS BEEN WELL RECEIVED IN DEPARTMENT OF SUPPLY AND SERVICES, ACCORDING TO D.R. ALLEN (DIRECTOR, AEROSPACE AND ARMAMENTS PRODUCTS CENTER), BUT THERE IS STILL A FEELING THAT SOMETHING MORE IS DESIRABLE. ALLEN TOLD TCO MARCH 8 THAT ISSUE IS NOW SCHEDULED FOR CABINET REVIEW ON MARCH 18. DSS AND DEPARTMENT OF NATIONAL DEFENSE (DND) ARE IN AGREEMENT WITH A RECOMMENDATION THAT GOC SHOULD FINANCE ALL ASPECTS OF THE PROGRAM FROM ITS OWN RESOURCES (EVEN IF THIS MEANS SUPPLEMENTARY ESTIMATES) AND SHOULD COVER THIS IN THE DIRECT CONTRACT WITH LOCKHEED. RELIANCE UPON FMS IS NOW CONSIDERED POTENTIALLY DISADVANTAGEOUS TO CANADA IN EVENT LOCKHEED SHOULD GO BANKRUPT. DIRECT CONTRACT WOULD GUARANTEE PRICE, PERFORMANCE, ETC., WHILE FMS WOULD LEAVE THESE OPEN TO RENEGOTIATION AT FUTURE DATE. THERE IS ALSO SOME (UNSPECIFIED) CONCERN AT REVISION OF FMS LEGISLATION WORKING ITS WAY THROUGH CONGRESS. HOWEVER, ALLEN STATED BOTH DSS AND DND REGARD AS ESSENTIAL A MORE FORMAL SIDE AGREEMENT (MENTIONED SPECIFICALLY AN EXCHANGE OF NOTES) WITH USG THAN WHAT IS REPRESENTED BY NON-PAPER TO GUARANTEE GOC
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REGARDING PERFORMANCE UNDER THE DIRECT CONTRACT SHOULD

LOCKHEED GO BANKRUPT. WHEN PRESSED AS TO WHAT MIGHT HAPPEN SHOULD USG NOT BE ABLE TO PROVIDE SUCH A FORMAL GUARANTEE, ALLEN INDICATED ONLY THAT CABINET WOULD HAVE TO LOOK AT ISSUE AGAIN. DND/DSS RECOMMENDATION CLEARLY WILL POSTULATE SUCH A GUARANTEE AS ESSENTIAL.

2. ACCORDING TO ALLEN, THERE IS A SPLIT IN OFFICIAL THINKING AT THIS POINT. TREASURY BOARD AND DEPARTMENT OF FINANCE ARE STRONGLY OPPOSED TO ANY GREATER DIRECT EXPENDITURE BY GOC, PARTICULARLY ONE INVOLVING SUPPLEMENTARY ESTIMATES. THEIR CONTENTION IS THAT LOCKHEED SHOULD BE FORCED TO MAKE ITS OWN ARRANGEMENTS FOR OUTSIDE FINANCE AND THUS MAKE ANY INCREASED COSTS TO THE GOC COMPLETELY INVISIBLE SO FAR AS THE BUDGET IS CONCERNED. THESE DEPARTMENTS FEEL THAT LOCKHEED CAN DO THIS; DND AND DSS DISPUTE THAT. AT THIS POINT IT IS NOT CLEAR WHETHER DIVIDED RECOMMENDATIONS WILL GO TO CABINET. FURTHER MEETINGS THIS WEEK WILL ATTEMPT TO WORK OUT THIS PROBLEM.

3. FINALLY, ALLEN CAUTIONED IT IS FAR FROM CLEAR RIGHT NOW WHETHER CABINET IS LIKELY TO BUY DND/DSS PROPOSAL IN VIEW OF THE DIRECT FINANCING INVOLVED; BUT IT IS TOO EARLY TO HAZARD A MEANINGFUL GUESS.

4. COMMENT: DEPARTMENT SHOULD BEAR IN MIND GENERAL FISCAL STRINGENCY GOVERNING GOC IN MANY MATTERS AT PRESENT TIME. EVERY DOLLAR USED FOR ONE PROGRAM IS CLEARLY AT EXPENSE OF OTHERS. THUS MINISTERS WHO HAVE BEEN DENIED RESOURCES RELEVANT TO THEIR DEPARTMENTAL OR CONSTITUENCY INTERESTS (EVEN THOUGH THEY HAVE NOTHING AGAINST LRPA AS SUCH) WILL WISH TO SEE SUCH ADDITIONAL FUNDS GOING NOT TO THIS PROGRAM BUT TO SOMETHING ELSE. ON THE OTHER HAND MOST ARE CONSCIOUS OF BROAD DEFENSE POLICY CONSIDERATIONS AND THE IMPORTANCE OF THIS ISSUE IN TERMS OF UNITED STATES RELATIONS.
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